

Message Text

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TAGS: EGEN, EFIN, EALR, AS

SUBJ: NEW GOA LIMITATIONS ON CAPITAL INFLOW AND GROWTH
OF MONEY SUPPLY

REF: A. CANBERRA 0361, B. CANBERRA 0180 (NOTAL) C. 76

CANBERRA 9124

1. GOA ANNOUNCED LATE JANUARY 14 CABINET APPROVAL EARLIER
SAME DAY OF A SERIES OF NEW ECONOMIC MEASURES TO CONTAIN THE
EFFECTS OF THE NOVEMBER 28 AUST DOLLAR DEVALUATION, AND
REINFORCE THE GOVERNMENT'S ANTI-INFLATION EFFORTS.

2. KEY MEASURES INCLUDED ESTABLISHMENT OF 25 PERCENT VARIABLE
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DEPOSIT REQUIREMENT ("VDR") ON FOREIGN BORROWINGS, EMBARGO
ON SHORT-TERM OVERSEAS BORROWING OF LESS THAN TWO YEARS,
TIGHTER EXCHANGE CONTROL PROCEDURES TO LIMIT OPPORTUNITIES
FOR EXCHANGE RATE SPECULATION, RESUMPTION OF QUARTERLY
CORPORATE INCOME TAX COLLECTIONS AND A FURTHER 1 PERCENT
INCREASE, TO 9 PERCENT, OF THE TRADING BANKS' STATUTORY
RESERVE DEPOSIT ("SRD") RATIO. PACKAGE ALSO INCLUDED

FURTHER CUTS IN FEDERAL GOVERNMENT EMPLOYMENT CEILING AND A CEILING ON THE 1977-78 LEVEL OF FEDERAL GOVERNMENT BUDGET OUTLAYS AT THE CURRENT YEAR'S LEVEL. (DETAILS OF THESE MEASURES ARE CONTAINED IN CANBERRA 0361.)

3. TIMING OF JANUARY 14 PACKAGE APPARENTLY RELATED TO HIGH DECEMBER LEVEL OF CAPITAL INFLOW, NOTWITHSTANDING SUCCESSIVE REVALUATIONS IN DECEMBER WHICH REDUCED ORIGINAL 17.5 PERCENT DEVALUATION TO THE VICINITY OF 11-12 PERCENT, AND REPORTED MASSIVE BACKLOG OF APPLICATIONS FOR CAPITAL IMPORTS STILL PENDING AT RESERVE BANK. DETAILS OF NEW VDR SYSTEM OBVIOUSLY DESIGNED TO CONCENTRATE RETARDING EFFECT ON SHORTER TERM AND SPECULATIVE INFLOWS WHILE MITIGATING IMPACT ON LONGER TERM NEW INVESTMENT IN MINING AND MANUFACTURING. NEVERTHELESS, THE NEW ARRANGEMENTS SIGNIFICANTLY INCREASE THE ELEMENT OF ADMINISTRATIVE INTERVENTION IN THE FOREIGN INVESTMENT PROCESS, AND INCREASE THE TYPE OF UNCERTAINTIES AND PROCEDURAL REQUIREMENTS FOR WHICH THE GOA FOREIGN INVESTMENT REGIME WAS NOTABLE UNDER THE PREVIOUS LABOR GOVERNMENT.

4. BALANCE OF PAYMENTS DATA FOR DECEMBER 1976 RELEASED JANUARY 13 BY THE AUSTRALIAN BUREAU OF STATISTICS REVEALED THAT DURING THE MONTH THE AUSTRALIAN BALANCE OF PAYMENTS WAS IN OVERALL SURPLUS, AS MEASURED BY NET OFFICIAL MONETARY MOVEMENTS, BY AUST DOLS 404 MILLION, WITH A TRADE SURPLUS OF AUST DOLS 83 MILLION, A CURRENT ACCOUNT DEFICIT OF AUST DOLS 164 MILLION AND A NET APPARENT CAPITAL INFLOW OF AUST DOLS 568 MILLION. TREASURER'S JANUARY 14 STATEMENT, CITING THIS INFLOW, ACKNOWLEDGED THAT MUCH OF IT PROBABLY REFLECTED LIMITED OFFICIAL USE

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UNWINDING OF EARLIER LEADS AND LAGS. BUT A REPORTED VERY HIGH BACKLOG OF APPLICATIONS TO THE RESERVE BANK FOR CAPITAL IMPORT, AND ASSERTIONS THAT THE RESERVE BANK WAS SINGLE-HANDEDLY RESTRAINING THE INFLOW BY DELAYING ACTION ON THESE APPLICATIONS, APPARENTLY CONVINCED THE CABINET THAT A MEASURE OF DIRECT RESTRAINT WAS REQUIRED.

5. THE RESULTING NEW VDR SYSTEM, WITH ITS PROVISION FOR REPAYMENT OF DEPOSITS AT THE END OF THREE YEARS AND FOR TOTAL EXEMPTION OF SOME CATEGORIES OF INVESTMENT YET TO BE DEFINED IN DETAIL, OBVIOUSLY REFLECTS ATTEMPT TO RESTRAIN IMPACT OF CAPITAL INFLOW AND MONEY SUPPLY WHILE RETAINING BENEFITS ORIGINALLY SOUGHT BY DEVALUATION FOR EMPLOYMENT-CREATING AND DEVELOPMENTAL INVESTMENT. THE WORKABILITY OF THIS TWO-TIER APPROACH REMAINS TO BE SEEN, WHILE ITS SIGNIFICANCE FOR INVESTMENT WILL DEPEND IMPORTANTLY UPON DECISION YET TO BE MADE BY A NEWLY ESTABLISHED INTER-DEPARTMENTAL COMMITTEE, DETAILING THE AREA AND GUIDELINES FOR EXEMPTION. WHATEVER THE GUIDELINES, THE GOA WILL OVER TIME

FACE DIFFICULT PRESSURES FOR CONTINUOUS BROADENING OF THE EXEMPTION AREA AT THE EXPENSE OF THE ORIGINAL OBJECTIVE.

6. THE CONSIDERABLE TIGHTENING OF EXCHANGE CONTROL PROCEDURES TO LIMIT THE OPPORTUNITY FOR TRADING LEADS AND LAGS, AND GENERALLY TO TIGHTEN THE RESERVE BANK'S SURVEILLANCE OVER INTERNATIONAL TRANSACTIONS WILL TEND TO MAKE THE RECENTLY UNOBTRUSIVE AUSTRALIAN EXCHANGE CONTROLS A MORE PROMINENT FACTOR IN THE CONDUCT OF DAY-TO-DAY BUSINESS, BUT SHOULD NOT PRESENT ANY IMPORTANT PROBLEMS FROM A FOREIGN INVESTMENT STANDPOINT.

7. THE LATEST INCREASE IN THE STATUTORY RESERVE DEPOSIT RATION COMES ON THE HEELS OF THE 1 PERCENT INCREASE ANNOUNCED JANUARY 7 AND WHICH WILL NOT TAKE EFFECT UNTIL JANUARY 18. IT RAISES THE RATION TO 9 PERCENT, AND WILL FREEZE AN ADDITIONAL AUST DOLS 175 OF TRADING BANK FUNDS AS LIMITED OFFICIAL USE

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PART OF THE GOVERNMENT'S EFFORTS TO CURB BANK LENDING.

8. THE NEW MEASURES RELATING TO FEDERAL GOVERNMENT STAFFING AND BUDGET REPRESENT REAFFIRMATIONS OF THE VERY AUSTERE APPROACH WHICH THE LIBERAL/COUNTRY PARTY GOVERNMENT HAS TAKEN SINCE IT ENTERED OFFICE A LITTLE OVER ONE YEAR AGO. WHILE THE REDUCED LEVEL OF PUBLIC SERVICE EMPLOYMENT REPRESENTS ESSENTIALLY THE FORMALIZATION OF A LEVEL WHICH HAS ALMOST BEEN REACHED UNDER AN ATTRITION POLICY, THE DECISION TO FREEZE THE PRESENT REAL LEVEL OF FEDERAL GOVERNMENT EXPENDITURE THROUGH THE 1977-78 YEAR WILL UNDOUBTEDLY BE SEVERLY TESTED IN THE BUDGET PROCESS BUT ONLY BY THE REQUIREMENTS OF NORMAL POPULATION GROWTH, BUT BY GROWING PRESSURES FROM BOTH LABOR AND BUSINESS FOR INCREASED LEVELS OF PUBLIC EXPENDITURE.
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